Bank Deregulation Bill S. 2155 Rolls Back Dodd-Frank Protections for Consumers and Economic Stability

Center for Responsible Lending

S. 2155, the so-called "Economic Growth, Regulatory Relief, and Consumer Protection Act," forgets Lessons of the Foreclosure Crisis

S. 2155 would re-expose consumers to reckless and abusive financial practices, including many that contributed to the last recession and foreclosure crisis. The bill weakens crucial consumer protections, including the Consumer Financial Protection Bureau's Qualified Mortgage (QM) rule and Ability-to-Repay standard. Specifically, the bill would:

- Expand an exemption from the QM rule to institutions with up to $10 billion in assets and holding loans in portfolio. This expansion means hundreds more larger financial institutions could then evade the common sense standard that lenders verify borrowers' ability-to-repay their mortgage loan. Not only would this bring back toxic loan products and elevated foreclosure rates, it would also provide legal safe harbor for predatory lenders. (Section 101);

- Exempt manufactured-home retailers from rules that prevent borrowers from being steered toward loans that are more expensive than those for which they qualify. This poses a great threat to low-income Americans, especially in rural communities, and could increase the cost of a home by thousands of dollars (Section 107);

- Exempt 85 percent of banks from Home Mortgage Disclosure Act (HMDA) reporting requirements. By eliminating key data on lending patterns, this would make it far more difficult to combat racial discrimination and to improve access to credit (104);

- Allow many more financial institutions to avoid paying escrowing taxes and insurance for many higher-cost, higher-risk loans, thus placing more burden and risk on borrowers. This would increase the likelihood that homeowners will again face unexpected/unmanageable costs and will lose their homes and that communities will lose tax revenue (109);

- Exempt lenders from appraisal requirements for most rural loans. This would reopen the door to abuse and inaccurate valuations, leading to homeowners (once again since the lead up to the crisis) paying higher costs for homes than they are worth or consumers losing equity on their homes. The Financial Crisis Inquiry Commission found appraisal fraud was a big factor in the crash (103); and,

- Eliminate requirement of a three-day wait period on mortgage disclosures in cases where the lender offers a new interest rate. During the final moment before closing, unscrupulous lenders could make harmful changes to the loan terms without giving the borrower time to consider whether they are being fleeced (110).

Sources: Letters from the Center for Responsible Lending & Americans for Financial Reform opposing the bill, which are available respectively at http://bit.ly/CRLS2155 and http://bit.ly/AFRS2155

Center for Responsible Lending

The Bill Would Allow Wall Street Greed to Again Threaten to Bring Down the U.S. Economy

Recklessness on Wall Street led to an economic crash that cost millions of jobs and trillions in family wealth. S. 2155 would significantly weaken risk controls at banks, ranging from community banks to some of the largest banks in the country. Specifically, the bill would:

- Greatly undermine the mandate that the Federal Reserve ensure adequate oversight of large banks, including those whose recklessness led to the financial crisis. The asset threshold for enhanced regulatory controls would go from $50 billion to $250 billion. This enhanced supervision would be reduced or eliminated at 25 of the largest 38 banks in the country (Section 401);

- Eliminate requirements for giant banks and non-bank financial firms to also have their own risk management, such as internal risk committees and company run stress tests (Section 401);

- Limit ability of regulators to police “brokered deposits,” a category of “hot money” deposits that have been found to increase the risk of bank failure. Brokered deposits are designed to take advantage of public insurance while circumventing the $250,000 FDIC limit for those deposits to qualify for this backing of taxpayer dollars (202);

- Create a new loophole in the Volcker Rule that would open the door for both small and big banks to engage in speculative trading with customer deposits (203); and,

- Significantly reduce capital requirements for large banks that hold customers’ securities and assets to protect from theft/loss (known as “custodial banks”), which have been recognized by the Fed and global regulators as central to the financial system. This change would will lower protection against insolvency and thus increase risk to the entire financial system and the economy (402);

S. 2155’s harms to consumers far outweigh benefits; the latter constitutes window dressing.

Parts of the bill claim to offer consumer protections. However, these measures are either illusionary, inadequate, or when real, they are modest and far outweighed by measures that re-expose Americans to a wide array of dangerous and abusive financial practices.

Sources: Letters from the Center for Responsible Lending & Americans for Financial Reform opposing the bill, which are available respectively at http://bit.ly/CRLS2155 and http://bit.ly/AFRS2155